



City of Detroit

OFFICE OF THE AUDITOR GENERAL

Airport Department Financial Related Audit

August 2003

Airport Department
Financial Related Audit
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*Finding appeared in the prior financial related audit report dated January 25, 1999.



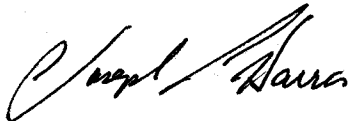
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CITY OF DETROIT

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MEMORANDUM

DATE: September 17, 2003

TO: Honorable City Council

FROM: Joseph L. Harris
Auditor General 

RE: Financial Related Audit of the Airport Department

TO: Mayor Kwame M. Kilpatrick

Attached for your review is our report on the financial related audit of the Airport Department.

This report contains our audit purpose, scope, objectives, and methodology; background; and our audit findings and recommendations.

The Department staff that we interviewed, worked with, and observed was very cooperative and demonstrated a high degree of professionalism and dedication to the mission of the Department. We appreciate the cooperation and assistance that we received from the employees of the Airport Department.

AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY

Audit Purpose

This financial related audit was performed under the Office of the Auditor General's (OAG) charter mandate to audit financial transactions of all City agencies. The OAG performed the audit of the Airport Department's control procedures to test their adequacy to properly record transactions of cash receipts, payroll, disbursements, fixed assets, revenue, and imprest cash and to make any recommendations, if warranted, to improve the control procedures.

Audit Scope

The OAG performed an assessment of the Airport Department's control procedures for transactions of cash receipts, payroll, disbursements, fixed assets, revenue, and imprest cash and determined there are certain weaknesses in the system of control. We focused our audit on the weaknesses discovered during the assessment, and the status of the prior audit findings.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external quality review of the Office of the Auditor General within the last three years, and accordingly, included such tests of the records and such other auditing procedures as we considered necessary under the circumstances. No information is withheld from this report.

Audit Objectives

Our audit objectives were to determine whether the Airport Department implemented the prior audit recommendations or otherwise resolved the findings, and to evaluate the adequacy of the Airport Department's internal controls over the major financial reporting processes.

Audit Methodology

To accomplish the audit objectives, our audit work included the following:

- A review of City ordinances and other pertinent information relating to the Airport
- Interviews with appropriate City of Detroit Airport Department personnel
- Observation and testing of internal control processes and procedures

BACKGROUND

Detroit City Airport is located on Conner Avenue about six miles from downtown Detroit on approximately 300 acres of land with two runways and associated taxiway systems. City Airport serves as a general aviation and corporate aviation facility providing services to Detroit and Southeastern Michigan. The airport is available for aircraft operations 24 hours a day, 365 days a year. The aircraft storage facilities can accommodate approximately 300 aircraft. Airport facilities currently include administrative offices, two car rental agencies, and a control tower.

The Airport Advisory Commission, consisting of seven members, is appointed by the Mayor to serve a four-year term. The Airport Advisory Commission, acting in conjunction with the Airport Department, has the responsibility for holding the land for the City's airport and other aviation facilities and heliports. In addition to overseeing day-to-day operations, the Department recommends the enactment of ordinances designed to safeguard the public against the perils and hazards attendant to the operation of aircraft and airport facilities within the City or its police jurisdiction.

Since 1976, the Airport has engaged the services of a Fixed Based Operator, which is responsible for fueling operations and collecting landing fees and parking fees from general aviation aircraft. The Fire Department's Aircraft Crash Rescue Unit and the Police Department's Aviation Unit are located at the Airport.

The Airport is an enterprise agency with a budget for fiscal year 2001-2002 of approximately \$7.7 million, and \$4.5 million for fiscal year 2002-2003. Landing fees, rental of hangers and tie down space, and fuel flowage fees provide a significant portion of the Department's revenue.

FINDINGS AND RECOMMENDATIONS

Findings marked with an asterisk (*) indicate that this finding and related recommendation appeared in the previous Auditor General report. The date shown indicates the audit report in which the finding and related recommendation or part thereof first appeared.

***1. Assign Cash Receipts Function to Someone Other Than the Employee Assigned to Record Receipt Transactions:**

(June 30, 1991) The Airport Department receives payments for its aviation related services through the mail, and over-the-counter in its administrative offices. While almost all payments are made by check, a few are paid with cash, which the Department authorizes its office staff to accept. As a result, employees responsible for handling these cash receipts also maintain the records used to document such receipts.

An effective system of internal control over cash receipts requires that the same employee not perform incompatible functions. Employees who have access to cash receipts should not maintain the records which account for cash and receivables. Without appropriate segregation of duties for cash handling, depositing, and record keeping, it is relatively easy for any employee, who is able to perform all of these functions, to conceal and perpetuate a misappropriation of funds.

The Department indicates that shortages of general office staff have made it impractical to implement specific segregation of duties for cash handling, depositing, and related record keeping functions.

We recommend the Airport Department assign incompatible cash receipts functions to different employees to maintain adequate segregation of duties, or if this is not practical, implement alternative procedures for improving internal control over cash receipts.

***2. Deposit all Cash Receipts Within 48 Hours of Collection:**

(June 30, 1994) Our examination of the Airport Department's collection and deposit of cash receipts disclosed that the Department does not deposit all receipts in a timely manner. Therefore, it is not in compliance with Finance Directive No. 20.

Finance Directive No. 20 requires the deposit of City cash receipts within 48 hours of collection, unless a City agency obtains a waiver of this requirement from the Finance Department. When cash receipts are not deposited on a timely basis, they become susceptible to loss, theft, or misappropriation.

The Airport Department indicated it is not always practical to deposit monies within 48 hours for the relatively small amounts of money it receives, especially considering the current staffing level.

We recommend the Airport Department comply with Finance Directive No. 20 and deposit all cash receipts within 48 hours of collection, or obtain a waiver of such requirement from the Finance Department.

***3. Reconcile Checks Listed in Mail Register to Daily Bank Deposit Records:**

(June 30, 1985) The Airport Department receives checks in the mail for its various revenue producing services (e.g., tenant rentals, landing fees, and concession fees). The Department lists all checks received by mail in a Mail Register. However, the Department rarely reconciles the checks listed in the Mail Register to the Department's daily receipt and bank deposit records.

Periodically comparing cash receipts per the Mail Register to bank deposit records is a generally recognized method of providing assurance that cash receipts are properly recorded and deposited.

While the Department assured us that it is aware of the importance of this procedure, staff vacancies have limited the Department's ability to comply with this recommendation.

We recommend the Airport Department establish procedures by which an employee, not involved in cash receipt handling or in record keeping for these receipts, periodically trace checks listed in the Mail Register to daily remittance and bank deposit records, and satisfactorily resolve any noted differences.

***4. Develop a Formal Procedures Manual:**

(June 30, 1985) The Airport Department has been conducting its administrative, operational, record keeping, and accounting functions without the benefit of a formal comprehensive operating procedures manual.

The development, maintenance, and utilization of a formal operating procedures manual would strengthen internal control over the Department's operations and numerous reporting, accounting, and record keeping functions. Such a manual would also provide an effective tool for training new employees. In the absence of a manual, the duties assigned to employees are more likely to be made without consideration of the internal controls to provide assurance that employee actions conform to both the City's and the Department's policies and procedures.

The Department realizes the importance of a formal procedures manual for its operations and functions. Although the Department considered hiring an outside contractor to develop a procedures manual, it did not since management decided this was not cost effective.

We recommend the Airport management develop and implement a formal procedures manual for its operations, including administrative, recording keeping, and accounting functions, to facilitate improved control and understanding of its operations and procedures.

***5. Negotiate Contracts With All Tenants and Concessionaires:**

(June 30, 1994) At the time of our examination, the Airport Department did not have current contracts with some of its major tenants.

Principles of management require contractual relationships be put in writing and maintained on a current basis, to minimize the risk of misunderstandings between the parties regarding the terms and conditions of any contract. The Airport has not received concession fees from these vendors in two years, in spite of ongoing car rental business outside of the airport traffic, due to the terms of the expired contracts. The City has lost, and is continuing to lose, revenues as a result of not negotiating a contract with Enterprise and Hertz in a timely manner.

According to a Departmental representative, the Airport does not have current contracts with its tenants because the parties were unable to agree on terms. The tenants continue to pay fees based on the expired contract terms, which were based on passenger enplane counts and had no guaranteed minimum payment amount specified. Since there is not a major carrier using City Airport, no passengers enplane, and no fees are due from the tenants.

We recommend the Airport Department begin processing and negotiating new contracts with tenants and concessionaires well before current contracts are due to expire to avoid any lapses, and negotiate new contracts with tenants and concessionaires whose contracts have already lapsed.

6. Assure Evidence of Receipt of Goods is Obtained Before Approving Payments for Purchases:

During our review of voucher disbursements, we noted the Airport Department paid for certain purchases, made before calendar year 2002, without proof of receipt or previous approval of management.

An effective system of internal control requires procedures for adequately documenting and verifying the receipt of purchased goods, such as repair parts and supplies, before making payment for those goods. If adequate support and evidence of receipt are not obtained, the Airport is more likely to make payment for unsatisfactory items, make duplicate payments, or pay for items never received.

We recommend the Airport implement procedures to assure that supporting documentation, which provides adequate evidence of the satisfactory receipt of goods and services, is obtained before approving payment for any purchase.

OTHER NONCOMPLIANCE ISSUES

In addition to the foregoing recommendations, we noted the following instance of noncompliance with established City policy:

1. The Department reimburses parking fees to its employees through its imprest cash fund, rather than through the mileage reimbursement process.

The Department should implement procedures to correct the above condition related to imprest cash to ensure compliance with established City policy.



ATTACHMENT A

August 28, 2003

Joseph L. Harris, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

**Re: Airport Department Response to
Financial Related Audit, August 29, 2003**

Dear Mr. Harris:

The following presents the Airport Department's response for the indicated finding and related recommendation in the August 29, 2003 financial related audit of the Department, as prepared by the Office of the Auditor General.

Finding No. 1

Assign cash receipts function to different employee than assigned to record receipt transactions.

Airport Department Response

The Airport Department uses Oracle Accounts Receivable to generate invoices. Thus, most Department revenue is received centrally by Finance – Revenue Collection. Nevertheless, the Department continues to receive a small number of checks and cash. To ensure that not one person has sole responsibility for cash handling procedures, *the Department hereby undertakes steps to reassign the cash receipt record maintenance function to an employee not responsible for physical receipt and deposit of cash.*

Finding No. 2

Deposit all cash receipts within 48 hours of collection.

Airport Department Response

Though most Airport Department revenue is received centrally by Finance – Revenue Collections, the Department receives a small number of checks and cash. From a cost-benefit standpoint, it is not always practical to deposit funds within 48 hours. For instance, the labor and lost productivity cost to process, deliver and record a single \$25 identification badge deposit would exceed \$25. The Department has in place procedures and controls over temporary safekeeping of cash. In compliance with Finance Directive No. 20 *the Department hereby undertakes steps to obtain a waiver of the 48-hour deposit rule expressed in Finance Directive No. 20.*

Finding No. 3**Reconcile checks listed in Mail Register to daily bank deposit records****Airport Department Response**

The Department will, on a quarterly basis, obtain a random sample of checks recorded in the Mail Register for that quarter and reconcile them to bank deposit records to ensure proper control over cash.

Finding No. 4**Develop a formal Procedures Manual****Airport Department Response**

The Airport Department is governed by numerous rules, regulations, mandates and other documents, issued by the City of Detroit, the Federal Aviation Administration, and other entities. The Department works to remain in compliance with these. The Department realizes not only the advantages of a formal Procedures Manual but that the development of this document will be an intricate and time-consuming undertaking. *The Department acknowledges that it is investigating the possibility of hiring college interns to develop this Manual in a phased approach.*

Finding No. 5**Negotiate contracts with all tenants and concessionaires****Airport Department Response**

The Airport Department wishes to clarify that the collection of fees, or the absence thereof, from rental car agencies Hertz and Enterprise is dictated by the terms and conditions of the original contract agreements, and not due to the lack of a contract. Present terms are 100% concession, based on number of enplaned passengers utilizing their services. *The Airport and Law Departments are in the process of renegotiating these agreements with a provision for a minimum rent payment supplemented by a concession factor based on the number of enplaned passengers.*

Finding No. 6**Assure evidence of receipt of goods is obtained before approving payments for purchases****Airport Department Response**

The Airport Department understanding that the scope of the Auditor General's current audit covers the period August 1999 (e.g. the date of the last Airport Department Internal Control Review conducted by the Office of the Auditor General) to present. Nevertheless, the Department wishes to point out that *since the appointment of the current Acting Director, in January of 2002, only purchases that are approved in advance by management and evidenced by receipt are paid from Department funds.* All evidence for this finding by the Auditor General's staff was for purchases made prior to 2002. This issue has been rectified and does not truly reflect current Department procedures.

Other Noncompliance Issue

The Department reimburses parking fees to its employees through its imprest cash fund, rather than through the mileage reimbursement process

Airport Department Response

The Airport Department is currently making use of the Municipal Parking Department's (hereafter, MPD) voucher system. The Department obtains vouchers from MPD. An employee can park at the MPD facilities and submit the voucher to the cashier as payment. The MPD, on a quarterly basis, generates an interagency invoice for reimbursement of services rendered, which the Airport Department pays via wire transfer. The MPD voucher system works well for the Airport Department with its few employees. Parking reimbursements are infrequent and we consider it impractical to utilize the mileage reimbursement process, as it will cost the City of Detroit more to process the reimbursement for parking than the actual expenditure.

If you need additional clarification on any of these items please feel free to call me at 852-6400 extension 119.

Sincerely,



Delbert Brown, Acting Director
Airport Department

cc: Carolyn Williams-Meza, Mayor's Office
Kandia Milton – Mayor's Office

DB/pm